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UNIFICATION OF CHINESE FINANCIAL AND ECONOMIC WORK

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(Reference Materials on the New Industrial and Commercial Policy), Peiping,
Jan 1952

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Summary: This report gives in full an article published originally in the Peiping Jen-min Jih-pao on 10 March 1950, and reprinted in the above-mentioned book. The article discussed the reasons for centralizing national economic activity and gave a brief history of the general stages of economic activity before 1950. Explanations are given for the early decentralized economic activities and how those conditions have disappeared to the extent that a new policy of economic control is feasible and necessary. Possible objections are anticipated and refuted and workers at all levels are called upon to weather the initial hardships of the changes and follow the central government in postwar reconstruction plans.

On 3 March 1950 the Government Administration Council promulgated the Decision on the Unification of National Financial and Economic Work. This decision is a basic step in the improvement of financial and economic control. There are reasons for the timely action on this decision.

Our wartime financial work from the war with Japan until 1949 was completely decentralized. This period can be divided into two stages: The 11 years from 1937 to 1948, and the one year 1949. During the first 11 years there was separate currency, and separate handling of receipts and disbursements; the only unified aspect was that of policy. Only in recent years was there the possibility of producing a small number of military items and trading of goods in these areas. This decentralized policy was in line with actual conditions existing in the liberated areas at that time; and for this reason it achieved great success.

Last year 1949, with the exception of Tibet, the entire nation became a liberated area. To meet this situation, the scope and degree of unification of financial work increased. First, the people's currency was made standard throughout the nation except for the Northeast, thus unifying the disbursement agencies. After the liberation of Shanghai and Wuhan, the earlier kind of unification, limited to policy, was no longer sufficient. Financial organs in all parts of the country demanded unified decisions, planning, and management of the following problems: tariffs, tax lists, tax rates, production planning, raw material resources, commodity sales, import sales, use of foreign exchange,

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distribution of domestic trade items, price controls, shipping, control of communication costs, etc. All of these required continuing controls. But from the over-all view of economic work, control was still basically decentralized since no method had been devised for the unified control of receipts; only the expenditures had been centralized.

This condition was unavoidable at the time. On the one hand, the size of the liberated area increased rapidly and finances in the newly liberated areas had to be handled by local provisional authorities. On the other hand, autumn collections of taxes in kind, which constitute a very important part of national income, were not collected in many areas until January or February of this year and are yet to be collected in a number of areas. Tax collections throughout the liberated areas were slowly put in order. Therefore, the situation last year was as follows: the decentralized conditions continued but unification increased in scope.

Now we have arrived at a new stage. For the most part, taxes in kind have been collected; unified tariffs, tax lists, and tax rates have been published. Since the entire mainland has been liberated, tax collections are greater than last year. The question now is: Should we stay on last year's level or should we advance? The decision of all the important conferences and governmental sessions has been to advance, not to remain static. This is to say that economic and financial work must progress from a basically decentralized state to one of basic centralization. Also, although there remain some decentralized elements, the important ones have been centralized. This centralization is to be seen in the existing conditions of area, communications, commodity flow, and currency.

Just what must be unified? These items have been enumerated in the decision of the Government Administration Council, and the important ones are unification of financial receipts and expenditures, particularly financial receipts. Items of income such as all taxes in kind, levies, stored goods, and part of the profits of public enterprises, will enter the national coffers. Expenditures must be authorized by the Central Ministry of Finance, thus ensuring a centralized use of our national income. To implement this system, the military will centralize the administrative branches of the People's Liberation Army.

Governmental organs, schools, and units will determine their rosters and standardize them; all persons not on the rosters or supernumeraries will be under the centralized control of the National Coordination Committee. No new personnel will be hired without the approval of this committee. Agencies, schools, and factories will determine the number of personnel and the work capacity of each worker on the basis of present conditions. To cut down duplication of effort, whenever possible, workers will be removed from unnecessary positions. We must concentrate our strength to destroy the enemy militarily and to bring about economic recovery.

In addition, all the capital and property of state-operated trade agencies will be concentrated under the control of the Ministry of Trade. All military administrative organs, schools, groups, and state-operated enterprises will deposit all their money in the People's Bank, retaining only such amounts as are necessary for immediate use. All of these steps are necessary features of a unified economic system. If the nation's income is not used in a centralized way, and if the nation's expenditures are not made according to a centralized system and under the principle of austerity, and if existing capital is not used in a concentrated manner, then this can only result in wasted strength and currency inflation. This will be harmful not only to our war effort but also to the national economy and the people's welfare.

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There can be no doubt that the above-listed controls are completely different from the scattered controls of last year. What scattered, decentralized controls will remain? Actually there will be quite a few. Agricultural production, under the general guidance of the Ministry of Agriculture, must be organized and directed by local agencies. Some of the nation's factories must be handled by the agencies of local government and military administration; some will be under the central government but will be temporarily controlled by local agencies. Economic income will, in part, be collected and handled by local agencies and spent on a local level.

After tax lists are drawn up by the central government, local agencies will be responsible for collection and administration in accordance with the rules and regulations laid down by higher organs. At the same time, centralized control of the nation's financial and economic work certainly does not mean that local government organs cannot and should not question the actions of superior organs. In fact, the local governments bear full responsibility in the fields of collection, safeguarding, and transportation of taxes in kind and in money. They must also provide leadership, assistance, and supervisory aid to all enterprises in that area which are under the control of the central government. Without this function of the local governments, complete enterprise planning by the central government would be impossible.

Moreover, to enable the Northeast to make a greater contribution to the entire nation's financial and economic work, the central government has decided that the currency of the Northeast will remain unchanged for the time being and that only a policy of commodity control will be exercised in this area.

Since our nation is large and only recently liberated, some may question whether it is too early to put into effect such centralized controls. During the period of decentralized economic control, there was a stage of centralization of economic activity within each area. Thus, it may be possible that total centralization is being forced too early upon this state of internal development. However, the problems arising from this cannot be considered large. With the exception of Sinkiang and Tibet, where communications are very poor, the nation is so unified by telephone and telegraph that communication is a matter of hours or even minutes. The railways are completely functioning and the airlines are going to function soon. Now the central government can receive daily reports on local administrative action and on local tax collection figures.

We are no longer a nation of decentralized rural liberated areas; the entire nation is united and all the advanced tools of communications are under the control of the people. The problems of the past no longer exist. For this reason an early centralization is entirely possible. Of course, we should not ignore the small problems arising in centralization and allow them to become major problems for the nation's economy and the people's livelihood. We must solve the little problems in order to avoid the large ones.

In this sort of a centralization is local power too small? Of course, it has been greatly decreased. However, we know that at present the national finances are not only not flourishing, but are even in the red. There is very little capital on hand for carrying out any action. If this small amount of capital is scattered throughout the local administrations and is not concentrated in the hands of the central government, the result must necessarily be that of spreading the capital so thin that it will be ineffective. This is identical with the military situation in which the mobile troops are spread too thin; it does not necessarily mean defeat but it makes complete victory very difficult. To allow independent action at all the various levels would mean that there could be no coordinated action of the whole.

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Will centralized control reduce the positiveness of the lower level organizations? This is possible, but it should be avoided. Lower level personnel might lose their sense of positiveness because of the misconception that the upper levels were taking over unified control and thus there was no need for the lower levels to assume any responsibility. For this reason, the leading organs must assure the middle and lower levels that under centralized economic control the lower levels still must bear a great responsibility. The good or bad management of any of the nation's affairs will be directly dependent on the activities of all.

If taxes in kind are eliminated, then all monthly payments will have to be made in people's currency, and commodity prices will drop. How then will the lower levels be able to manage their expenditures? Do not worry about this. In the first place, one of the functions of centralization of financial and economic work is to prevent currency inflation. In the second place, in certain areas the taxes in kind will still be used to make various payments. Furthermore, to forestall any drop in commodity and currency value which might weaken financial strength of various organs, the Government Administration Council has decreed that all deposits made in the national banks by military groups and state-operated enterprises shall be calculated on a parity basis.

Since various expenditures must be made on a lower level, why should income collected at this level be first turned in to the national treasury and then distributed for expenditure? Wouldn't it be just as well to allow the lower levels to retain what is needed for expenditures from the amount of their collections and then forward the remainder to the higher levels? Experience shows us that the results of these two methods are different. When the latter system is used, the local government tends to overemphasize local needs. And since the money is so handy, there is danger of misappropriation, with the result that the money sent to higher organs is often not enough; sometimes it is not sent at all. Local needs are most important to local eyes but frequently, from the over-all viewpoint, they are secondary.

If economic expenditures throughout the nation were made from the viewpoint of individual needs in local areas, where would the money come from to handle the larger affairs of national scope? The expenditures of a family must be divided into the important and the less important, the urgent and the less urgent; the same is true with the nation.

In evaluating the personnel of the central government who are working on problems of managing finances, the standards are not whether they are corrupt or whether they are honest; corruption is a crime and honesty is taken for granted. The important point is whether or not they are wasteful. This means not only wasteful in the sense of being extravagant but also in the sense of making poor decisions concerning the relative importance of various levels of expenditures. That is to say that the expenditures are not made on the most appropriate project but are made on less important ones.

After the local governments collect the taxes, the central government must guarantee the payment of local expenses. However, it will be impossible to avoid some delay. We are in a war and the front lines must come first. The basic principle in the government expenditures is still that of the army first and local areas second. If this means that local expenses will be a little late in arriving, the lower level officials certainly won't starve in such a short time. We have passed the period of guerrilla warfare and of secret operations under the rule of the enemy. Now the mainland is entirely liberated and there is enough for everyone. A slight delay in expenditures will not cause anyone too much hardship.

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During the early period of economic centralization, the lower levels will experience some hardships. However, these hardships are much less than those which would occur if the present conditions of financial decentralization were allowed to continue. We must face the small hardships to avoid the larger ones. We must follow the principle that the part follows the whole, that the local government follows the central government.

It is only necessary for us to put into operation the directive of the central government regarding the unification of financial activities, and, after a period of difficulties, we can expect conditions to improve. The excellence of our finances directly influences the nation's economy and the life of the people. This move of centralization will not only solve our financial problems; it will also establish the proper foundations for our postwar reconstruction. Without this move, we cannot concentrate China's capital and cannot use it in a concentrated fashion. This is harmful now and would continue to be harmful in the future.

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